

THE

Cotton

SITUATION

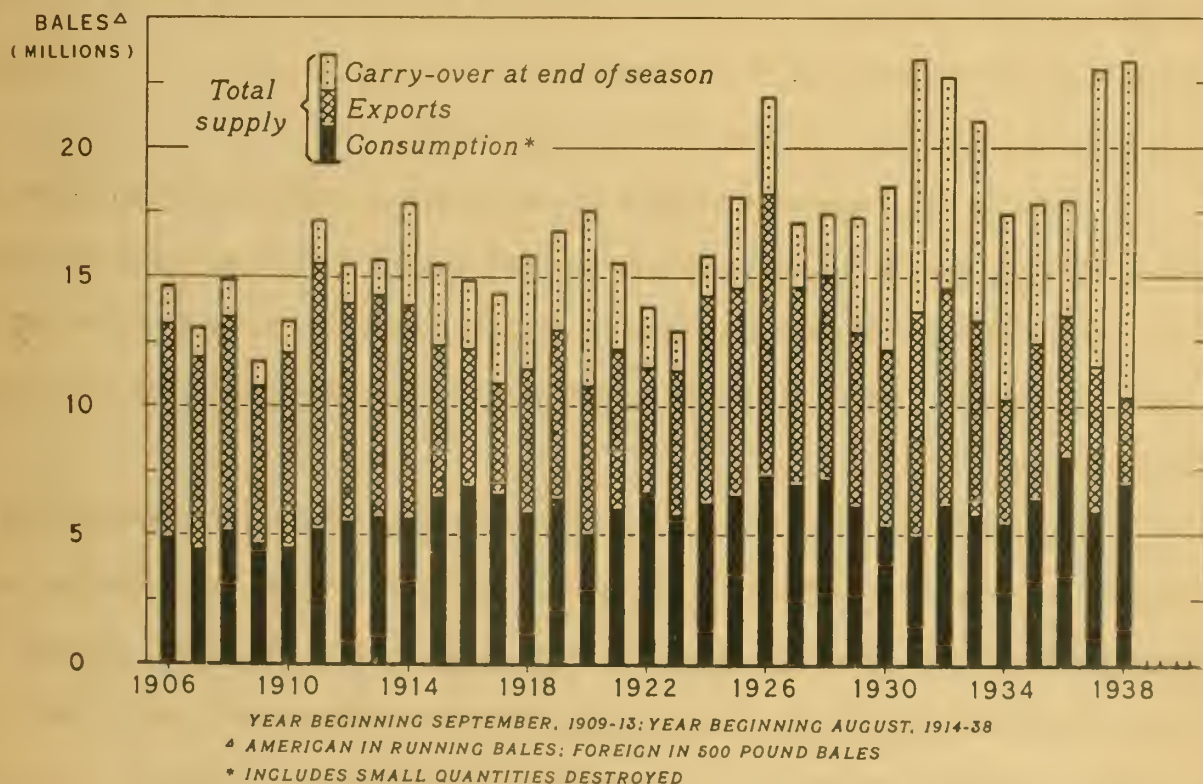
BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

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COTTON, ALL KINDS: DISTRIBUTION OF U. S. SUPPLY, 1906-38



U. S. DEPARTMENT OF AGRICULTURE

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BUREAU OF AGRICULTURAL ECONOMICS

THE DOMESTIC SUPPLY OF COTTON HAS BEEN AT RECORD OR NEAR-RECORD LEVELS IN EACH OF THE THREE YEARS 1937-39. IN THE 1938-39 SEASON DOMESTIC CONSUMPTION WAS FAIRLY LARGE BUT EXCEPTIONALLY SMALL EXPORTS RESULTED IN A NEW RECORD HIGH END-OF-SEASON CARRY-OVER. DURING THE CURRENT (1939-40) SEASON DOMESTIC CONSUMPTION WILL APPROXIMATE 7½ MILLION BALES AND EXPORTS WILL EXCEED 6 MILLION BALES. THIS WILL REDUCE THE END-OF-SEASON CARRY-OVER TO LESS THAN 11 MILLION BALES, COMPARED WITH 13 MILLION BALES ON AUGUST 1, 1939 AND 11½ MILLION BALES ON AUGUST 1, 1938.

T H E C O T T O N S I T U A T I O N

Summary

Recent European developments have had a decidedly adverse effect on prospects for cotton exports from the United States and other important exporting countries. If Great Britain succeeds in preventing shipments to the areas now under German and Italian control, practically all of continental Europe will be lost as an export market for an indefinite period. Since early May the blockaded area has been extended to include Belgium, Holland, France and Italy, an area which utilized 2-1/2 million bales of cotton in each of the 2 years prior to the beginning of the war last September.

Despite the temporary loss of these important markets for American and other cotton, recent domestic prices of spot cotton have been slightly higher than in early May. Although prices in domestic markets dropped about 1-1/4 cents during the first half of May, prices have advanced more than that amount since then.

The improvement in domestic business conditions and expectations of further improvements under the stimulus of the large-scale armament program appear to have been important price-strengthening factors in recent weeks. The continued relatively large domestic exports representing sales made some time ago, the near-record domestic consumption, and the large Government-controlled stocks have resulted in exceptionally small stocks in domestic trade channels. This situation likewise has tended to strengthen prices.

In the second week of June manufacturers' sales of unfinished goods were the largest for any week since last September. As a result the statistical position of domestic mills was greatly improved. This and the improvements in general domestic business conditions make it now seem likely that the decline

in domestic cotton mill activity has been halted at least temporarily. In the months immediately ahead mill activity, seasonally adjusted, is expected to hold steady or improve.

In Great Britain cotton mill activity apparently increased in late May and early June on the strength of Government orders. Orders for the civilian trade are reported to be relatively small. In Japan, India, and China cotton mill consumption was apparently about the same in May as in April. Except in India, where it was about 10 percent below May last year, mill consumption was also approximately the same as a year earlier.

PRICES

Domestic prices advance 1-1/3 cents from May low;
now 1/2 cent below season's high

The price of 10-3/4 cents for Middling 15/16" cotton in the 10 designated markets on June 22 was 1-1/3 cents above the low point of May 18. It was slightly higher than the price on May 1, having more than recovered the decline of 1-1/3 cents which occurred during the first 18 days of May.

Since May 1 the important export markets (for American and other cotton) of Belgium, Holland, Italy, and most (if not all) of France have been cut off from most cotton-exporting countries for an indefinite period. The mills of these 4 countries combined consumed approximately 2-1/2 million bales of cotton in each of the past few seasons, including 1 million to 1-1/2 million bales of American cotton. Despite the temporary loss of these important markets, domestic cotton prices are now slightly higher than at the beginning of May. This strength in prices reflects the recent rise in domestic industrial activity and the further improvement which is expected to accompany the large rearmament expenditures. The relatively small amount of cotton in trade channels and the anticipation of a lean on the 1940 crop have no doubt also contributed to the strength of domestic spot prices during the past few weeks.

Spot prices during the second week of May were approximately 1 cent above those of a year earlier but 1/2 cent below the price reached on December 13, 1939. Despite the probable unfavorable effects of the war on future cotton exports, recent prices have been about 2 cents per pound above those existing at the outbreak of the war last September.

Compared with prices in early May, quotations of near-month futures contracts at New York have declined 0.3 cent and prices of new crop contracts have declined 0.76 cent to 9.42 cents. This suggests that the Government loan program, aided by the stimulus given exports through the export-payment program, is supporting domestic prices of spot cotton to a considerably greater extent than it is supporting futures quotations.

Cotton: Spot price per pound, specified growths at Liverpool and
New Orleans, specified periods

Season, month or day	Liverpool								New Orleans	
	American		Indian	Egyptian	Brazilian	American			American	
			Fine Oomra #1	F.G.F. Uppers	Fair, Sao Paulo	Middling 7/8"				
	Mid- dling 7/8"	Low	% of	% of	% of	Ac-	Ac-	Ac-	Ac-	pool over New Orleans
10-yr. av.	Ct.	Ct.	Pct.	Ct.	Pct.	Ct.	Pct.	Ct.	Ct.	Ct.
1927-28										
to 1936-37	14.50	13.60	11.19	78.0	17.12	117.9	14.08	97.7	12.65	1.85
1936-37	14.62	13.16	10.87	74.4	17.40	119.0	14.12	96.6	12.79	1.83
1937-38	10.31	8.78	7.96	77.1	13.10	126.7	10.18	98.7	8.79	1.52
1938-39	10.15	8.71	7.14	70.4	11.80	116.5	9.63	94.9	8.73	1.42
1938-39 -										
Feb.	10.02	8.55	6.95	69.4	11.56	115.4	9.53	95.1	8.60	1.42
Mar.	10.17	8.71	6.85	67.4	11.58	113.8	9.68	95.2	8.69	1.48
Apr.	9.67	8.21	7.02	72.6	10.90	112.7	9.19	95.0	8.61	1.06
May.	10.55	8.97	7.45	70.6	11.08	105.0	9.83	93.2	9.30	1.25
June	11.04	9.38	7.61	68.9	11.47	103.9	10.18	92.2	9.45	1.59
July	10.61	8.95	7.31	68.9	11.43	107.7	9.85	92.8	9.37	1.24
1939-40 -										
Aug.	10.16	8.53	7.38	72.6	11.35	111.7	9.37	92.2	8.95	1.21
Sept.	11.21	9.79	8.56	76.4	12.49	111.4	10.71	95.5	9.02	2.19
Oct.	10.65	9.41	8.41	79.0	12.03	113.0	10.45	98.1	8.92	1.73
Nov.	11.66	10.79	9.46	81.1	12.70	108.9	11.59	99.4	9.40	2.26
Dec.	14.14	13.32	11.69	82.7	15.80	111.7	14.14	100.0	10.64	3.50
Jan.	14.81	14.12	12.31	83.1	17.50	118.2	14.87	100.4	10.79	4.02
Feb.	13.74	13.11	11.09	80.7	17.14	124.7	13.94	101.5	10.67	3.07
Mar.	13.06	12.53	10.68	81.8	17.17	131.5	13.23	101.3	10.43	2.63
Apr.	13.47	12.88	10.70	79.4	17.64	131.0	13.47	100.0	10.54	2.93
May	12.95	12.36	10.23	79.0	17.44	134.7	12.95	100.0	10.05	2.90
Mar. 1	13.40	12.90	10.90	81.3	16.90	126.1	13.74	102.5	10.80	2.60
8.	13.47	12.88	10.90	80.9	16.99	126.1	13.55	100.6	10.55	2.92
15.	12.88	12.38	10.62	82.5	17.22	133.7	13.05	101.3	10.44	2.44
21.	12.66	12.16	10.45	82.5	17.42	137.6	12.83	101.3	10.40	2.26
29.	12.91	12.33	10.53	81.6	17.32	134.2	13.00	100.7	10.37	2.54
Apr. 5	13.15	12.56	10.46	79.5	17.42	132.5	13.15	100.0	10.47	2.68
12.	13.62	13.03	10.88	79.9	17.84	131.0	13.62	100.0	10.55	3.07
19.	13.57	12.98	10.78	79.4	17.69	130.4	13.57	100.0	10.52	3.05
26.	13.53	12.95	10.67	78.9	17.64	130.4	13.53	100.0	10.58	2.95
May 3	13.72	13.13	10.77	78.5	18.03	131.4	13.72	100.0	10.53	3.19
10.	13.65	13.06	10.85	79.5	18.15	133.0	13.65	100.0	9.97	3.68
17.	12.44	11.86	9.84	79.1	17.01	136.7	12.44	100.0	9.31	3.13
24.	12.44	11.86	9.84	79.1	17.01	136.7	12.44	100.0	10.10	2.34
31.	12.44	11.86	9.84	79.1	17.01	136.7	12.44	100.0	10.01	2.43
June 7	12.44	11.86	9.84	79.1	17.01	136.7	12.44	100.0	10.22	2.22
14.	12.16	11.57	9.01	74.1	16.99	139.7	11.99	98.6	10.85	1.31
21.	13.11	12.53	9.51	72.5	19.62	149.7	12.86	98.1	10.74	2.37

Compiled from reports of the Liverpool Cotton Exchange except for the last 4 weeks, which are from cables to the Bureau of Agricultural Economics or from reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current official rates of exchange.

Cotton: Price per pound of Indian Oomra fine at Bombay and American Middling at New York, specified periods 1/

Season, month or day	Bombay	New York	
	Oomra fine	American Middling	Spread over Oomra at Bombay
	Cents	Cents	Cents
10-year average			
1927-28			
to 1936-37	9.11	12.90	3.79
1936-37	10.08	12.93	2.85
1937-38	7.27	8.75	1.48
1938-39	6.57	8.99	2.42
1938-39			
Feb.	6.34	8.98	2.64
Mar.	6.39	9.00	2.61
Apr.	6.38	8.87	2.49
May	7.13	9.56	2.43
June	7.17	9.88	2.71
July	6.81	9.71	2.90
1939-40			
Aug.	6.76	9.30	2.54
Sept.	7.33	9.30	1.97
Oct.	7.46	9.25	1.79
Nov.	8.61	9.73	1.12
Dec.	10.50	10.96	.46
Jan.	10.46	11.17	.71
Feb.	9.16	11.10	1.94
Mar.	8.78	10.90	2.12
Apr. 4	8.30	10.73	2.43
Apr. 11	8.90	10.79	1.89
Apr. 18	8.94	10.74	1.80
Apr. 25	9.12	10.72	1.60
May 2	9.14	10.77	1.63
May 9	8.80	10.64	1.84
May 16	7.38	9.34	1.96
May 23	6.73	9.17	2.44
May 30	6.39	<u>2/</u> 9.60	3.21
June 6	5.82	9.43	3.61
June 13	5.83	9.98	4.15
June 20	5.97	10.15	4.18

Compiled from official or reliable trade sources. Prices of Indian converted from rupees per candy of 784 pounds to cents per pound at current rates of exchange as reported by the Federal Reserve Board.

1/ Prices of Indian are prices of spot or near futures prior to September 1932. From 1932 through March 1940, spot prices. From April 4, 1940 to date, near futures. Prices at New York are spot prices prior to April 1940. From April 4, 1940 to date closing price of near active futures (old contract).

2/ Price for May 29.

Liverpool and Bombay prices down,
now exceptionally low relative to United States prices

Effective June 13, futures trading on the Liverpool Cotton Exchange was freed from the regulation in effect from May 23 to June 12, during which period prices were frozen at the May 16 level. The new regulations fix minimum quotations at the level of May 16, with trading permitted under this regulation, but daily fluctuations are limited, as was the case from September to mid-May, to 25 pence points for American cotton and 50 pence points for Egyptian cotton. No minima apparently were placed on spot quotations during the period of fixed prices, since such quotations were considerably lower on June 14 than on May 16 and 17.

The price of American Middling 7/8" on June 14 when converted to cents per pound at the official rate of exchange was equivalent to 12.16 cents. This was 1/4 cent less than on May 17. The price of Indian Oomra on June 14 was 4/5 cent less than on May 17. Quotations for Egyptian uppers were about the same as on the earlier date, whereas quotations on Sao Paulo were nearly 1/2 cent lower. The decline in Liverpool prices, together with the advance in prices in the United States, has reduced the spread of prices in Liverpool over those in the United States. On June 14 the Liverpool price of Middling 7/8" was only 1.31 cents above the price of Middling 7/8" in New Orleans, whereas on May 17 the Liverpool price was 3.13 cents above that of New Orleans. In the past week, however, this difference has widened again to 2.37 cents.

From early May to June 20 the price of near-month futures contracts for Indian Oomra at Bombay declined from slightly over 9 cents to a little under 6 cents per pound when converted at the current exchange rate, which remained practically unchanged during this period. During the same period the price of near-month futures contracts for American Middling 7/8" cotton at New York declined about 3/5 cent. As a result of these changes, the price of Indian Oomra at Bombay declined from 1-3/5 cents under the New York price of American, to 4-1/4 cents below the domestic price. Unless prices of spot cotton in Bombay are unusually strong relative to futures contracts, as has been the case in the United States, recent spot prices in Bombay are still lower relative to spot prices in the domestic markets. If current prices for spot cotton in Bombay were available they might be as much as 4-3/4 cents lower than spot prices in New York. Such differences represent a marked change since last December, when spot prices of Oomra at Bombay averaged less than 1/2 cent lower than spot prices of American Middling 7/8" in New York.

EXPORTS

Domestic exports continue much above last year
but considerably below average

Exports of American cotton in May were 58 percent above May 1939 but nearly 1/3 less than the 10-year (1929-38), May average. The marked increase for the month resulted primarily from the fact that exports to the United Kingdom and Italy were both more than 5 times as large as in May last year.

Cotton: Exports from specified countries, average 1928-29
to 1937-38, and seasons 1937-38 to date

Country of origin and destination	May					August to May				
	10-yr.av.				1940	10-yr.av.				1939-40
	1928-29	1938	1939	1940	as a	1928-29	1937-	1938-	1939-	as a
	: to	:	:	:	% of	: to	: 38	: 39	: 40	% of
	: 1937-38	:	:	:	1939	: 1937-38	:	:	:	1938-39
	: 1,000	1,000	1,000	1,000		1,000	1,000	1,000	1,000	
	: running	run.	run.	run.	Per-	running	run.	run.	run.	Per-
	: bales	bales	bales	bales	cent	bales	bales	bales	bales	cent
United States to:										
Germany	55	15	21	0	---	1,133	628	292	19	6.5
United Kingdom :	64	27	13	72	553.8	1,214	1,499	334	1,821	474.2
France	22	10	5	10	200.0	665	704	332	712	214.5
Italy	34	26	9	46	511.1	514	464	252	536	212.7
Spain	12	1	0	10	---	192	1	16	268	1,675.0
Belgium	8	7	4	1/	---	143	178	84	200	238.1
Canada	19	20	24	30	125.0	200	217	191	352	184.3
Japan	70	31	41	34	82.9	1,334	591	818	838	102.4
China	11	3	6	12	200.0	237	22	82	402	490.2
Other countries:	43	53	20	12	60.0	555	923	656	773	117.8
Total	338	193	143	226	158.0	6,187	5,227	3,107	5,921	190.6
	: 1,000	: 1,000	: 1,000	: 1,000	Per-	: 1,000	: 1,000	: 1,000	: 1,000	Per-
	: bales	: bales	: bales	: bales	cent	: bales	: bales	: bales	: bales	cent
	: 478 lb.	: 478 lb.	: 478 lb.	: 478 lb.		: 478 lb.	: 478 lb.	: 478 lb.	: 478 lb.	
Egypt to:										
United Kingdom :	35	38	41	92	224.4	481	510	503	598	118.9
France	14	15	19	34	178.9	179	211	168	314	186.9
United States ..	5	2	5	7	140.0	84	34	32	54	168.8
Germany 2/	11	18	21	0	---	134	183	175	12	6.9
Italy	7	10	5	5	100.0	100	102	96	95	99.0
Japan	6	5	14	6	42.9	96	72	134	135	100.7
British India ..	7	12	5	12	240.0	64	121	76	115	151.3
Other countries:	25	33	35	19	54.3	286	328	338	254	75.1
Total	110	135	145	175	120.7	1,424	1,561	1,522	1,577	103.6

Compiled from official sources.

1/ Less than 500 bales.

2/ Includes Austria beginning January 1938.

3/ Not available by countries.

Exports for the 10 months, August through May, totaled 5,921,000 bales, or 91 percent more than the very small exports in this period last season, about 10 percent more than in the corresponding period of 1937-38, but somewhat less than the 10-year (1929-38) average for these 10 months. The 10 months' exports to the United Kingdom totaled 1,821,000 bales, and exceeded exports for the corresponding period last season by 374 percent. Japan was the next largest export market during this period, shipments to that country totaling 838,000 bales or just slightly more than in the same months last season. The 712,000 bales exported to France and the 536,000 bales to Italy were a little more than twice as large as exports to those

countries from August through May 1938-39. Compared with the 10-year average, there was a loss in exports to Germany of more than 1,100,000 bales. This, however, was largely offset by larger than average exports to the United Kingdom, France, Italy, China, Spain and a few other countries.

The outlook for exports during the months immediately ahead appears to have become less and less favorable during recent weeks. Since early May the cotton mills of Belgium, Holland, and, more recently, France and Italy, have been lost as export markets for American and most other cotton for an indefinite period. In each of the two past seasons mills in these 4 countries have consumed approximately 2-1/2 million bales of cotton, of which 1 to 1-1/2 million bales were American cotton. These mills, together with those in areas previously under German control, consumed a total of about 4-3/4 million bales in each of the two seasons, 1937-38 and 1938-39, of which 1.9 to 2.3 million bales were American.

Exports of Egyptian cotton up 20 percent
in May, 4 percent for 10 months

With exports from Egypt to France, the United Kingdom, and British India from 1-4/5 to 2-2/5 times as large in May this year as in May 1939, the total to all countries exceeded May 1939 by 21 percent. Since exports in May last year were unusually large, the total for last month was the largest for any May on record and two-thirds larger than the 10-year (1929-38) May average.

The exceptionally large May exports brought the 10 months' total to all countries to nearly 4 percent above the total for the corresponding months last season and slightly above that for the first 10 months of 1937-38. The total of 1,577,000 bales (478-pound basis) exported during the first 10 months of the current season was the highest for this period since 1936-37.

DEMAND AND CONSUMPTION

UNITED STATES: Decline in mill activity halted; upturn expected

The 636,000-bale consumption of all cotton by domestic mills in May was slightly larger than had been expected. As a result, the May index of cotton consumption adjusted for seasonal variations was somewhat higher than for April (116 compared with 113), thus bringing to a halt, at least temporarily, the sharp decline which began last December. Some of the weekly indexes of cotton mill activity had indicated that May would be lower than April. The index for May this year was 6 points higher than for May last year.

Manufacturers' sales of cotton textiles for the week ended June 15 were reported as the largest since last September and, according to the New York Cotton Exchange Service, were equal to 4 to 5 weeks' production. Consequently, the statistical position of manufacturers has been improved materially. This and the further improvement in domestic business activity, employment, and consumer incomes which is expected--partly as the result of the large Federal expenditures for armaments--have improved the outlook for domestic cotton

consumption. It now seems unlikely that consumption in June and July will decline more than the usual seasonal amount and may decline less than seasonally.

The seasonally adjusted index of consumption therefore may remain about unchanged or increase somewhat compared with May. Should industrial production and general business conditions experience an additional rise, as now seems likely, the pick-up in domestic cotton mill activity may be extended well into the 1940-41 season. It would appear that anticipation of some such development as this is one of the factors contributing to the recent strength in domestic cotton prices in the face of the increasingly less favorable export outlook.

Total domestic mill consumption from August through May of 6,591,000 bales was 15 percent larger than in the first 10 months of last season and less than 100,000 bales below the record high consumption for these 10 months established in 1936-37.

EUROPE:

With the spread of war during recent weeks the outlook for cotton consumption in Europe has been less and less favorable. This is due not only to the disruption of cotton mill activity in the combat areas but also to the fact that important areas have recently been cut off from outside sources of raw material for an indefinite period. If the British are able to make it difficult, if not impossible, for the areas now under German and Italian control to obtain cotton from the potential cotton-exporting countries of the world, cotton mill consumption in this large portion of Europe will be greatly restricted during the months immediately ahead. As previously indicated, the mills in the areas now under German and Italian control consumed about 4-3/4 million bales of cotton in each of the seasons 1937-38 and 1938-39. Mill consumption in this area has been running considerably lower so far this season than last season, on account of the shortage of cotton in Germany, Poland, and Czechoslovakia. Should the entire area of German and Italian industry remain largely blockaded for most of the coming season, mill consumption would be confined largely to stocks on hand in the area at the beginning of the season. If so, consumption would be equal to only a small proportion of the quantity used this season and would be still smaller in comparison with consumption for the seasons just preceding the beginning of the war.

Trade reports indicate that in Great Britain cotton mill activity increased in the early part of June and is now running at exceptionally high levels. Although manufacturers' sales of cotton goods for domestic and foreign civilian trade were apparently relatively small, sales to the British Government were reported as continuing large. In early June the French Government is said to have placed large orders with British mills as a result of the loss of French mills to the Germans. Now many of these orders may never be filled, but may be taken over by the British Government. During the 4 weeks ended June 14, forwardings of cotton to British mills totaled 250,000 bales compared with 218,000 bales in the corresponding weeks last year. Those forwardings included 122,000 bales of American cotton this year compared with 62,000 in the same weeks of 1939.

ORIENT: Cotton consumption slightly lower in
May compared with April or with May 1939

Cotton mill activity in China, including Manchuria, during May, is reported to have remained about unchanged compared with April. Total mill consumption for the month is estimated at around 140,000 bales. This is also about the same as in May last year. In Shanghai, Japanese, Chinese, and British mills were all reported to have been operating at near 100 percent of capacity and the mills in Tientsin at about 50 percent because of shortage of raw materials. The spinning industry in Manchuria is reported to have decided to reduce operating rates from 36 percent to 16 percent of capacity, beginning June 1.

According to the New York Cotton Exchange Service, cotton mills in India consumed about 10 percent less Indian cotton during May than in May last year. For the 10 months, August through May, consumption of these mills was estimated at 2,409,400 pound bales compared with 2,591,000 during the same period last season.

ACREAGE, PRODUCTION, STOCKS AND SUPPLIES

Japanese Government to continue efforts
to stimulate cotton production in China

Despite the discouraging result so far obtained, the Japanese are still making unrelenting efforts towards increasing cotton production in the yen bloc area of China, according to a recent radiogram from the office of the American Agricultural Attaché at Shanghai. These efforts are designed to eliminate Japan's dependence upon supplies from other countries, especially the United States and British India. The Japanese Cotton Cultivating Association is reported to have decided to appropriate 1.7 million yen for encouraging production expansion in North and Central China this year, with the ultimate objective of gradually enlarging production to 4 million bales after several more years of subsidization. This year government allotments in Kwangtung leased Territory and Manchuria for the expansion of cotton production are reported to total 1.5 million yen.

According to this message the 1940 total Chinese crop is still expected to be considerably larger than the relatively small 1939 crop. But information received up to early June indicated a 1940 cotton crop in North China no larger than last year's small crop. This is said to be due to unfavorable weather for planting over a large part of the area, poorer preparation of land because of lack of favorable returns from the previous crop and the importance of self-sufficiency in food crops this year.

The weather in important producing regions in lower Yangtze Valley has been dry. Cotton cultivation in Hupeh Province must have been affected by the intensive military operations in that area since the planting season. No significant changes in crop prospects have been reported from other parts of China. In Manchuria the Government planned to increase the 1940 production by about 30,000 bales of 478 pounds over last year's harvest but realization of the plan seems unlikely because of unsuitable weather, shortage of fertilizers, and farmers' dislike for official control.